

Internal Revenue Service

Department of the Treasury

Washington, DC 20224

NO INFORMATION REQUIRED
Release copies to District

Person to Contact: [REDACTED]

Telephone Number: [REDACTED]

Refer Reply to: [REDACTED]

Date: [REDACTED]

Surname [REDACTED]

Date 9/29/92

JUN 10 1992

Employer Identification Number: [REDACTED]

Key District: [REDACTED]

Dear Applicant:

We have considered your application for recognition of exemption from federal income tax as an organization described in section 501(c)(6) of the Internal Revenue Code. For the reasons stated below, we conclude that you do not qualify for tax exemption under this section.

You were incorporated on [REDACTED], under the [REDACTED] Nonprofit Corporation Law. In response to Part II, question 1 of Form 1024, you state that you were formed for the purpose of exchanging weekly drilling information on the offshore [REDACTED] region with respect to oil and gas production. In furtherance of this purpose you publish information relative to your member companies. At your weekly meetings, members are required to report all drilling activity conducted by their company in offshore waters. The information is reported, noted by the other members and reported back to their respective companies. The various companies then use this information in formulating geographical decisions relative to the development of future oil and gas exploration.

You derive your major source of revenue by publishing this information in weekly publications for sale to all oil and gas companies interested in receiving the information in published form. The information is collated and reproduced as requested by week, month, year or any other historical period. Additionally, information with respect to various federal lease sales is captured, published and sold for various amounts depending on the content thereof. The revenues are used to fund the cost of the weekly meetings as well as to pay overhead and salary expense of employees. Your major expenditure is for the publication of the information sold to various companies.

[REDACTED]

Your membership is comprised of persons, including corporations and joint ventures, employed by oil and gas exploration companies.

Section 501(c)(6) of the Code provides for the exemption of business leagues, chambers of commerce, and boards of trade not organized for profit and no part of the net earnings of which inures to the benefit of any private individual.

Section 1.501(c)(6)-1 of the Income Tax Regulations defines a business league as an association of persons having some common business interest, the purpose of which is to promote such interest and not to engage in a regular business of a kind ordinarily carried on for profit. It is an organization of the same general class as a chamber of commerce or board of trade, and its activities should be directed to the improvement of business conditions in one or more lines of business as distinguished from the performance of particular services for individual members.

Rev. Rul. 78-70, 1978-1 C.B. 159, holds that a board of trade that, as its principle activity, provides grain analysis laboratory services to members and nonmembers at the same charge and that is supported almost entirely from the substantial profits of the laboratory is not exempt from tax under section 501(c)(6). The ruling states that the operation of the laboratory serves as a convenience to those who use its services because such services are necessary to them in their respective business operations. Therefore, the activity constitutes a prohibited particular service within the meaning of section 1.501(c)(6)-1 of the regulations.

Rev. Rul. 56-65, 1956-1 C.B. 199, holds that an organization whose principle activity consists of furnishing particular information and specialized individual service to its individual members engaged in a particular industry, through publications and other means to effect economies in the operation of their individual businesses is performing particular services for individual persons and is not entitled to exemption under IRC 501(c)(6).

Rev. Rul. 68-265, 1965-2 C.B. 265, holds that a non-profit organization that operates a credit information service as its primary activity is not exempt from federal income tax as an organization described in section 501(c)(6). The organization furnishes credit information services to its members. The service consists of making inquiries and recording the information received relative to the experiences of members with

parties requesting credit. The information is supplied to the members on request with no special charge made for the service. Income is derived exclusively from dues and interest income. The revenue ruling, citing various case authority, states that an activity that serves as a convenience or economy to members in the operation of their businesses is a particular service of the type proscribed by section 501(c)(6) and the regulations thereunder.

Rev. Rul. 66-223, 1966-2 C.B. 224, holds that the operation of a bid registry which is open to all individuals or firms in a particular trade or business and which has been established and operated as a means of encouraging fair bidding practices within the industry is an appropriate activity for a business league exempt under section 501(c)(6) of the Code. The activity consists of receiving contract bids in sealed envelopes from subcontractors. No one may examine bids placed with the registry until the bids are publicly opened. The subcontract is then awarded to the lowest qualified bidder. The revenue ruling concludes that by conducting the bid registry, the organization is engaged in an activity directed to the improvement of business conditions in a particular industry as a whole as distinguished from the performance of particular services for individual members.

In determining that the provision of a data bank and an exchange for confidential life insurance underwriting for its members was a particular service, the First Circuit Court of Appeals stated in MIB, Inc. v. Commissioner, 734 F.2d 71 (1st Cir. 1984), that the ultimate inquiry under section 501(c)(6) of the Code was whether an organization's activities advance the members' interests generally, by virtue of their membership in the industry, or whether they assist members in the pursuit of their individual businesses.

Although some of your activities may benefit the oil and gas industry as a whole, the majority of your activities consists of providing specialized information for a fee to members and non-members in their individual capacities. Therefore, like the organizations in Rev. Rul. 56-65, 68-265, and 78-70, all cited supra, and the organization in MIB, Inc. v. Commissioner, supra, you are performing services which provide your members with an economy and convenience in the conduct of their individual businesses and may not be recognized as exempt under section 501(c)(6) of the Code.

Whereas the organization in Rev. Rul. 66-223, supra, performed services for the industry as a whole, and not for

individual members, you are engaged in the performance of particular services for individual members' businesses. Therefore, you are distinguishable from the organization in the above revenue ruling.

Additionally, it is well settled that the original extension of tax-exempt status to chambers of commerce and similar organizations was intended to cover membership organizations of a type characteristically supported by dues. For example, statements submitted by the Chamber of Commerce concerning the relevant portion of the Income Tax Act of 1913 made explicit the "association" and "membership" character of the organization in question. On the matter of the income characteristics of chambers of commerce, the Chamber emphasized that:

Exemption is asked only for commercial organizations which are not organized for profit. These organizations receive their income from dues paid by their members, a form of voluntary tax which business men pay if they may receive in common with all other members of their communities or of their industries the benefits of cooperative study of local development, of civic affairs, of industrial resources, and of local, national, international trade.

See Briefs and Statements, Senate Committee on Finance, 63rd Cong. 1st Sess. 2001 (1913).

In light of the above, the Service has consistently held that an organization seeking exemption under section 501(c)(6) of the Code must be supported by membership dues to a meaningful extent. You, however, are supported by income derived from the publication of various data collections, an activity wholly unrelated to the improvement of business conditions in one or more lines of business. Therefore, in addition to the fact that your activities are not directed to the improvement of the common business interests of your members, we find that you are not supported by membership dues to a meaningful extent and, therefore, may not be recognized as exempt under section 501(c)(6).

Based on the foregoing, we hold that you do not qualify for exemption from federal income tax as an organization described in section 501(c)(6) of the Code. You are required to file federal income tax returns on Form 1120.

[REDACTED]

You have the right to protest this ruling if you believe it is incorrect. To protest, you should submit a statement of your views, with a full explanation of your reasoning. This statement must be submitted within 30 days from today and must be signed by one of your principal officers. When sending a protest or other correspondence with respect to this case, you will expedite its receipt by placing the following symbols on the envelope:

[REDACTED]. These symbols do not refer to your case, but rather to its location.

You also have the right to a conference in this office after your protest statement is submitted. If you desire a conference, you must request it when you file your protest statement. If you are to be represented by someone who is not one of your principal officers, that person must file a proper power of attorney and otherwise qualify under our Conference and Practice Requirements.

If we do not hear from you within 30 days, this ruling will become final and copies will be forwarded to the District Director, Atlanta, Georgia, which is your key district for exempt organization matters. Thereafter, any questions about your federal income tax status should be addressed to your District Director.

Sincerely yours,

(signed) [REDACTED]

[REDACTED]
Chief, Exempt Organizations
Rulings Branch 1

cc: [REDACTED]